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09 NOV 1989

MEMORANDUM FOR: Deputy Inspector General for Audit

VIA: Inspector General
Chief, Operations and Resource Management Staff

FROM: []
Chief, Political and Psychological Staff

SUBJECT: Reply to the Audit of QRPLUMB

1. Detailed below are our responses to the specific recommendations in the audit report on QRPLUMB. For your information, we wish to note that PPS has arranged for QRPLUMB to hire a cleared accounting firm to resolve the majority of these issues. While we were reluctant to introduce a Washington, D.C.-area accountant to a New Jersey company, we felt compelled to ensure that the accountants (two of whom are former Agency employees) were well-versed in and capable of meeting all QRPLUMB Administrative Plan requirements. Therefore, many of the replies to your recommendations will refer to activities undertaken or about to be undertaken by this accounting firm.

RECOMMENDATION #1: Strengthen management oversight of QRPLUMB.

RECOMMENDATION #2: Establish an appropriate system of internal accounting control at QRPLUMB.

RECOMMENDATION #3: Maintain accurate subsidiaries for advance and property accounts.

The accounting firm has established a system of internal controls. They are training the company treasurer on proper procedures in maintaining a vouchered record system and have introduced a PC-based accounting package. The records include all necessary subsidiaries as required including inventory, depreciation and advances. In addition to the basic Administrative Plan requirements for a Balance Sheet and Statement of Income and Expense, the firm is producing cash flow statements, statements of changes to income and a budget analysis. All reports are computer generated.

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RECOMMENDATION #4: Obtain supporting documentation for the (Research) expenses and continue to adequately document such expenses.

The accounting firm is in the process of documenting these expenses. At the present time, they estimate they will have this completed by the end of the year. In the future, funding of dissident groups will be achieved through a revolving fund and will be accounted for in accordance with Agency regulations and no longer recorded on the proprietary's books.

RECOMMENDATION #5: Resolve the unexplained reconciling difference in the cash-in-bank accounts, and ensure that the required cash schedule and certification are submitted to Headquarters as required by the Administrative Plan.

The accounting firm has reconciled all bank accounts and will be responsible for reconciling or reviewing the reconciliation of all accounts in the future.

RECOMMENDATION #6: Record and consolidate the activity of North American Suchasnist into Newark's financial records.

North American Suchasnist is now recorded on the New Jersey company's books. However, rather than doing consolidated financial statements, the accounting firm at present is recording the Suchasnist activity as an advance and expenses the activity when accountings are received for. Consolidated financial statements will be produced beginning with the first quarter of FY-1990.

RECOMMENDATION #7: Establish proper procedures for recording Newark's funding to the London office.

(Recommendation 8 is discussed below)

RECOMMENDATION #9: Establish an accounting system at the London office and provide necessary training and professional support to the office bookkeeper.

RECOMMENDATION #10: Ensure that the operations (of the London office) are reported and registered in accord with British law.

The London office of QRPLUMB is a highly sensitive operation which is run by a sensitive, high-profile agent. It has not been declared to liaison. PPS is considering a proposal that the London office, which is independent of the Newark office, be treated as a "noncontrolled subsidy within a proprietary" and the Administrative Plan amended accordingly. We would have the New Jersey office record the London subsidy on their books as an advance and expense the advance upon acknowledgement of receipt.

We would, of course, task the principal agent of QRPLUMB to discuss the issues raised in the audit report with the London asset with the view of having them resolved. However, we do not directly control the agent and London Station is not in contact with him. An amended Administrative Plan would be required.

If this proves unfeasible, PPS would opt to have the London office separated from the QRPLUMB OpAct and established, perhaps in conjunction with the Munich office, as a separate entity with an OpAct of its own, or separate OpActs, and with Fiscal Plans to govern accountability. New Jersey would then be used as a funding conduit solely to backstop the London and Munich offices' source of money. PPS is presently reviewing each of its proprietary cover mechanisms and will defer a decision until this review is completed.

RECOMMENDATION #8: Ensure that the person responsible for maintaining the accounting records receives adequate training and professional accounting support.

The accounting firm is training the office bookkeeper and his assistant and is monitoring his progress. Members of the firm have developed excellent rapport with QRPLUMB personnel and they respond well to tasking by the firm.

RECOMMENDATION #11: Submit financial statements required by the Administrative Plan which reflect the consolidated operations of QRPLUMB.

RECOMMENDATION #12: Provide Proprietary Systems Branch (PSB) with the data necessary to adjust the G.L. 1601 account for the operations of the Munich office.

The PPS Proprietary Management Office (PMO) is responsible for ensuring that accountings for OFM/PSB are complete. Regretfully, the PMO has had more pressing priorities recently and has not yet completed this task. However, OFM has recently assigned a third person to the PMO on a temporary basis and consolidating QRPLUMB quarterly accounting submissions will be among her first priorities. PMO will forward the consolidated statements on or about 30 November and info the Audit Staff at that time.

RECOMMENDATION #13: Coordinate with Policy Coordination Staff and Office of General Counsel and obtain a written opinion that the circumstances of U.S. subscriptions to the "Suchasnist" journal are in compliance with E.O. 12333.

PPS is once again pursuing the ramifications of the U.S. distribution of Suchasnist within the context of E.O. 12333. We are at present compiling a more up-to-date distribution data both on the Ukrainian-language issue and the English language issue

that is produced in the United Kingdom. Once all the data is compiled, we will again request PCS concurrence.

2. A copy of the revised Administrative Plan for QRPLUMB will be forwarded through your office for information as is required by HHB 230-8. Our target date for completing the Plan is 30 November 1989.

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DDO/C/PPS/PMO(4N53NHB,72405,8Nov1989)

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